

taking
action

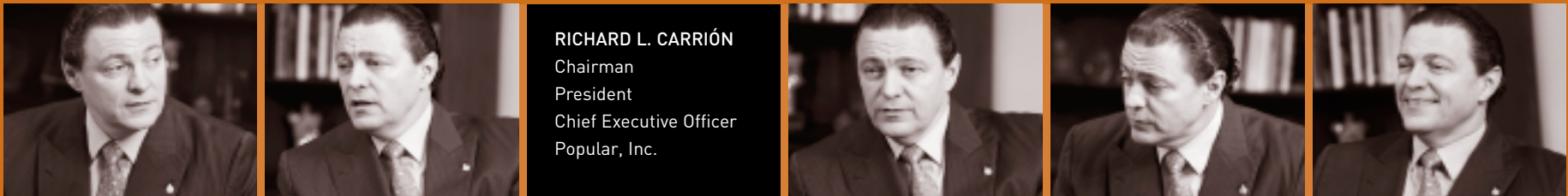
Popular, Inc. is a full-service financial institution based in Puerto Rico with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, with over 300 branches and offices, the Corporation offers retail and commercial banking services through its franchise, Banco Popular de Puerto Rico, as well as auto and equipment leasing and financing, mortgage loans, consumer lending, investment banking and insurance. In the United States, the Corporation has established a community banking franchise providing complete financial solutions to all the communities it serves. Banco Popular North America operates over 140 branches in California, Texas, Illinois, New York, New Jersey and Florida. Popular Financial Holdings, with 135 retail lending locations, offers mortgage and personal loans, while E-LOAN provides online consumer direct lending to obtain mortgage, auto and home equity loans. The Corporation, through its financial transaction processing company, EVERTEC, continues to use its expertise in technology and electronic banking as a competitive advantage in its expansion throughout the United States, the Caribbean and Latin America. The Corporation is exporting its 113 years of experience through these regions, while continuing its commitment to meet the needs of retail and business clients through innovation, and to fostering growth in the communities it serves.

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taking action

“We are taking action and doing what we must to be more efficient and deliver the results that are expected of us.”

Richard L. Carrión, Chairman, President and Chief Executive Officer



“Parts of our business performed very well in spite of a challenging environment, but the interest rate scenario and the results of our mortgage operations in the United States significantly impacted our financial performance. We are not satisfied with these results and we have taken decisive steps to move things in the right direction.”

Letter to Shareholders: Taking Action

The year 2006 was very difficult for Popular. We had anticipated a challenging environment, but the situation deteriorated much more than we had projected on several fronts.

We had expected to see some relief in the interest rate scenario, but the sustained inversion of the yield curve impacted our margins. In fact, our net interest margin in 2006 hit its lowest point in more than 25 years. This, coupled with the contraction of the mortgage origination market, estimated at 18% by the Mortgage Bankers Association of America, hurt the profitability of our mortgage businesses in the United States. Finally, we faced a sluggish economy in Puerto Rico, our largest market. The government's fiscal situation and the ensuing shutdown in May led to a general feeling of uncertainty that manifested itself throughout the economy.

Parts of our business performed very well in spite of a challenging environment, but the results of our mortgage operations in the United States significantly impacted our financial performance. Consolidated net income for 2006 totaled \$357.7 million, 34% lower than the previous year. Results in 2006 reflect \$22.2 million in gains in the sale of investment securities compared to \$67.4 million in 2005. Basic earnings per common share (EPS) were \$1.24, compared to \$1.98 in the previous year. These results translate into a return on assets (ROA) of 0.74% and a return on equity (ROE) of 9.73%, compared to 1.17% and 17.12%, respectively, for 2005.

The performance of our stock in 2006 was disappointing as well. It closed at \$17.95 on December 29, 2006, compared to \$21.15 at the end of 2005, for a drop of 15%. Undoubtedly, part of the decline is due to our financial results. I also believe that the aftershocks of the accounting problems of several financial institutions in Puerto Rico are still being felt and the market continues to have a negative outlook on Puerto Rico in general.

In recent times, a lot of attention has been paid to the level of executive compensation and its linkage to a corporation's financial performance. At Popular, we believe that a large part of executive compensation should be variable, and that there should be a strong correlation between executive compensation and the Company's financial results. The Corporation's net income in 2006 declined by 34%. The compensation earned by your executive management team during that period – including salaries, bonuses and short-term and long-term incentives – declined by 57%. I know there is little comfort in these numbers, but they demonstrate a clear linkage between compensation and results.

We are not satisfied with these results, and we are taking action to move things in the right direction. In January of 2007, we announced the restructuring of our operations in the United States, particularly those related to Popular Financial Holdings (PFH), our consumer finance and mortgage subsidiary in the United States.

Letter to Shareholders: Taking Action

PFH's performance in 2006 was extremely poor. As volumes dropped and our net interest margin narrowed, our expense base – which had grown significantly during the mortgage boom years – proved unsustainable. We took measures early in the year, such as streamlining our retail office network and exiting some unprofitable businesses, but these measures were not timely or dramatic enough.

In the fall of last year, we began a thorough assessment of PFH's lines of business, and in January of 2007 announced a restructuring plan. This plan, which will be implemented throughout the year, has four basic components:

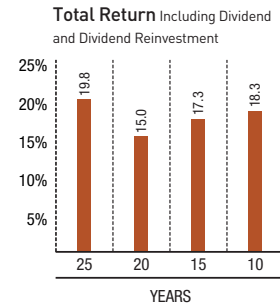
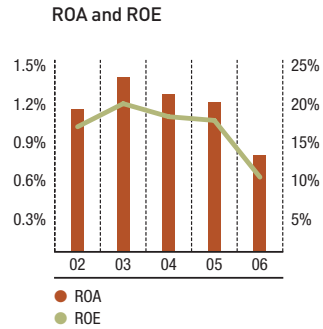
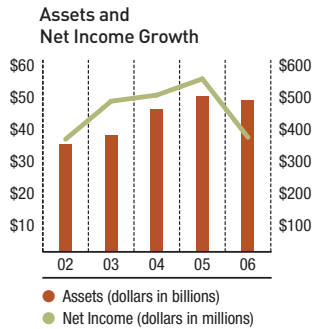
1. Exiting the wholesale non-prime mortgage origination business during the first quarter of 2007, which entails shutting down the wholesale broker, retail and call center business divisions.
2. Retaining and focusing on two PFH businesses that are currently profitable, and that have good opportunities for growth and positive performance: the Equity One network of 135 consumer finance offices located in 14 states and the third-party mortgage servicing business.
3. Consolidating PFH's commercial lending businesses – mortgage warehouse, mixed use and construction lending – into Banco Popular North America's (BPNA) commercial lending groups.
4. Consolidating all support functions into BPNA to reduce expenses.

This plan involved some very difficult decisions, particularly those that resulted in workforce reductions. We debated various alternatives, but in the end realized this was the right course to take. We tried to execute our decisions with the utmost respect for those affected. We estimate that the cost reduction initiatives will result in an expense reduction of approximately \$39 million on an annualized basis.

Cameron E. Williams, after serving as PFH's president for eight years, has decided to retire, effective March 31, 2007. All of Popular's U.S. mainland operations (BPNA, PFH and E-LOAN) will now report to Roberto R. Herencia, currently president of BPNA.

Banco Popular North America has improved its performance consistently since 2002. At that time, we delineated a three-year plan designed to create a solid foundation to position us for future growth. BPNA made good progress by any measure, but their financial results are not yet where we need them to be. In 2006, we launched the next phase of our strategic plan, which focuses on increasing the number of customers, revenues and earnings.

Despite interest rate pressures and intense competition in its markets, BPNA made progress across many fronts. Loans and deposits grew by 10% and 16%, respectively, and the number of checking accounts increased by 13%. Niche businesses, such as construction lending, community association lending, non-conventional mortgages and the money service business had a great year, and



the success of our Small Business Administration (SBA) lending strategy made Popular the fourth largest SBA lender in the nation.

E-LOAN, the online consumer direct lender we acquired in 2005, also had a challenging year. E-LOAN's business model, which requires high expenses in technology and marketing, is very sensitive to changes in volume and was also affected by the drop in the mortgage market. However, we are taking measures to manage that volatility. The auto loan and home equity line of credit (HELOC) businesses performed very well, and we further expanded and diversified E-LOAN's product line by adding PFH products to its offering. In addition, we began to keep part of E-LOAN's originations in our portfolio, which will generate a net interest income stream.

One of the bright spots of 2006 was E-LOAN's entrance in the deposit business, launched in September. In just three months, it was able to attract over \$1.3 billion in deposits, demonstrating not only the strength, but the versatility, of the E-LOAN brand.

Our businesses in Puerto Rico performed very well, in spite of a complicated economic environment. The local government's fiscal situation, and the ensuing government shutdown in May of 2006, led to a general slowdown of the economy that impacted our businesses in different ways. Nevertheless, we acted swiftly and were able to mitigate the impact with new sources of revenue and disciplined spending.

Banco Popular de Puerto Rico had to contend with tighter margins, a sluggish economy and a general instability in the financial services industry in Puerto Rico that translated into fierce price competition. We remained focused on strengthening our leadership position and increased our market share in practically all categories. We continued initiatives related to customer satisfaction, which included efforts to reduce waiting times at the branch, offering continuous training to our employees and adding customer service metrics to managers' incentives. While the emphasis on customer satisfaction will continue, we are pleased with the improvement we saw in 2006, with 66% of our clients describing our service better or much better than a year ago. One of our top priorities for 2006 was controlling expense growth and creating a tighter cost-management culture without impacting strategic investments. Total expenses, which had been growing at an average of 5% for the past five years, were below 2005 levels.

We are aware that the difficult economic environment may persist during 2007, and will focus on credit quality, cross-selling to our large customer base, growing our loan and deposit portfolios and keeping expenses under control. We are confident that we are in an excellent position to continue differentiating ourselves from the competition to remain the leading financial institution on the island.

Letter to Shareholders: Taking Action

EVERTEC, our processing and technology outsourcing company, had a solid year. To overcome the impact of the Puerto Rican Government's fiscal situation, which impacted government contracting as well as economic activity in general, EVERTEC focused on expanding new businesses and attracting new clients. We made significant progress in offering our services to other financial institutions, thus leveraging the infrastructure used by Popular companies to bring in additional revenues. In 2003, we embarked on our Technology Infrastructure Project (TIP), which involves the redesign of our banking technology platform to provide online real-time processing as well as a single and consistent customer view. Even though this is a project that spans several years, in 2006 we completed the centralized customer data integrator we call the transaction vault (TV), connected several delivery channels to it and began the redesign of our core deposit application.

Challenging times can highlight an organization's strengths. One of our greatest strengths is a team of highly dedicated employees, who remained focused and worked extremely hard to make the achievements I have mentioned possible.

We are also fortunate to have a Board of Directors made up of knowledgeable and committed individuals. Their continuous guidance and support, particularly during the most difficult moments of the year, was invaluable. In 2006, we restructured our Boards of Directors, and consolidated all of the subsidiaries' Boards into Popular Inc.'s. Our most sincere appreciation goes out to Juan A. Albors, José A. Bechara and Guillermo L. Martínez, who will retire from the Banco Popular de Puerto Rico Board as a result of this restructuring. We are extremely grateful for their countless contributions during the years they served on our Board.

We share no illusions about the difficult year that lies ahead. Good organizations learn from their mistakes and build on their successes. We plan to do just that as we remain focused on our long-term objectives.



Richard L. Carrión
Chairman, President and Chief Executive Officer

**BANCO POPULAR
DE PUERTO RICO**

- Over 1.3 million clients
- 200 branches and 114 offices throughout Puerto Rico and the Virgin Islands
- 6,201 FTEs as of 12/31/06
- 610 ATMs and over 29,000 POS throughout Puerto Rico and the Virgin Islands
- #1 market share in Total Deposits (33.50%) and Total Loans (22.74%)
- \$25.5 billion in assets, \$15.4 billion in loans and \$14.7 billion in deposits as of 12/31/06

**POPULAR
FINANCIAL HOLDINGS**

- 159 offices in 24 states as of 12/31/06
- Total originations amounted to \$9.8 billion in 2006, including \$4.5 billion originated by E-LOAN
- Servicing Portfolio of \$10.3 billion as of 12/31/06
- 2,284 FTEs as of 12/31/06
- \$9.3 billion in assets, \$8.5 billion in loans, and \$319 million in revenues as of 12/31/06

**BANCO POPULAR
NORTH AMERICA**

- 142 branches throughout six states (Florida, California, New York, New Jersey, Texas, and Illinois)
- 11 leasing offices with a presence in 11 states
- 2,048 FTEs as of 12/31/06
- 4th SBA lender in the United States in terms of dollars of loans
- \$12.3 billion in assets, \$8.8 billion in loans and \$9.8 billion in deposits as of 12/31/06

EVERTEC

- 12 offices throughout the United States and Latin America serving 15 countries
- 1,732 FTEs as of 12/31/06
- Processed over 920 million transactions in 2006, of which more than 505 million corresponded to the ATH® Network
- 4,600 ATMs and over 92,000 POS throughout the United States and Latin America

taking action

In the face of overwhelming challenges, we have not faltered. We are determined and taking action to rise above the difficult situation surrounding us, motivated by an unwavering commitment to our people, our customers and our shareholders.

BPPR

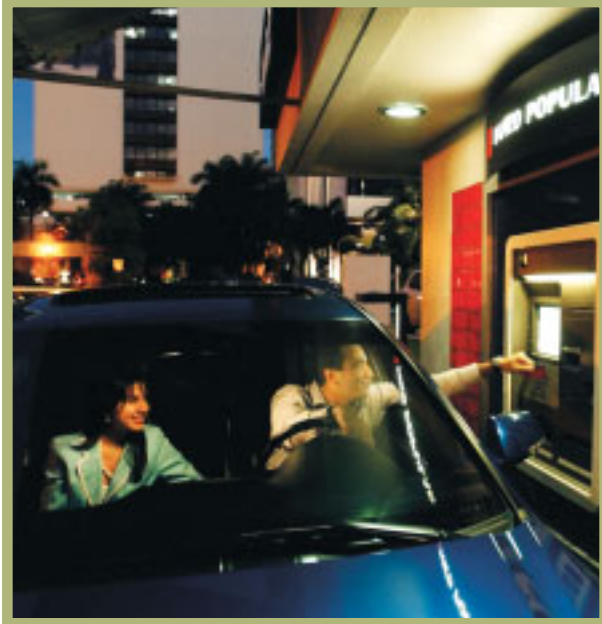
“Banco Popular’s pledge to engage customers with high service standards was ignited by our Customer Care initiative.”



DAVID H. CHAFEY JR.
Senior Executive Vice
President, Popular, Inc.,
President, Banco Popular
de Puerto Rico

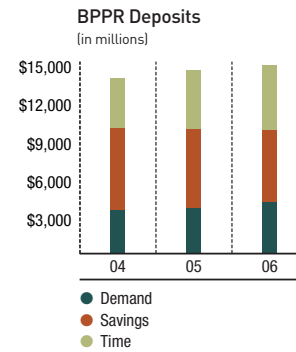
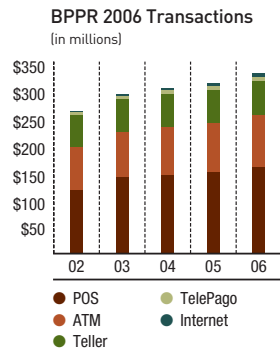
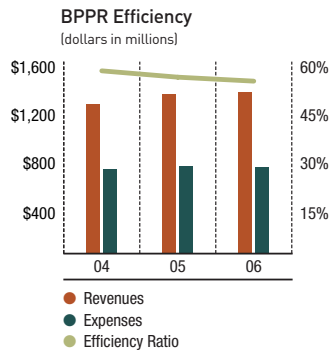


- Increased and maintained market share in all key categories
- Retail assets under management for our brokerage unit surpassed the \$4 billion mark, an increase of over 12%
- Expanded our credit card offering, exceeding the \$1 billion mark early during the year
- Internet transactions grew at a 42% CAGR from 2002 -2006
- Increased mortgage market share in spite of industry downturn



56%
increase in
construction loans
during 2006

53.9%
efficiency ratio. Cost
control efforts resulted
in flat expense growth
compared to 2005



Banco Popular de Puerto Rico remains strongly positioned as the leading financial institution on the island, holding 34% of the total retail deposit market share and a 37% share of commercial deposits. Our continued leadership is the result of our focus on leveraging such strengths as our comprehensive network of delivery channels, diversified offer of products and services, and profound knowledge of our customer base.

The financial services sector in Puerto Rico faced a daunting environment, characterized by uncertainty about the government's financial stability, increased tax rates, apprehension over the financial restatements of various local banks, and deteriorating consumer credit quality. We have responded with cost reduction initiatives that resulted in a reduction of total expenses, which are slightly below 2005 levels, compared to an average growth of 5% in the past years.

Banco Popular's pledge to engage customers with high service standards was ignited by our Customer Care initiative, an all-encompassing program to enhance the connection with our customers. Spearheaded by an outstanding year in commercial banking, our bottom line has been positively impacted by this renewed focus on customer service. Market share in the commercial loan segment grew to 23%, and our construction loan portfolio reached \$1,007 million, a 56% increase over last year.

Consumer lending also had a very good year, with our credit card portfolio breaking the \$1 billion mark early in 2006. We upgraded our processing platform and successfully introduced new credit cards: MasterCard Edge, Visa Return, Visa Signature and American Express Black. Popular Mortgage and Popular Auto, meanwhile, bore the brunt of the economic environment, as both industries observed loan volumes decrease over 20%, while the interest rate environment affected the gains we realized on loans sold. Popular Mortgage made significant headway towards becoming the #1 mortgage lender on the island, with \$1,497 million in mortgage loan originations, despite an overall slowdown in the mortgage market.

Electronic banking experienced significant growth; an aggressive marketing campaign led to the addition of over 62,000 electronic bills. As a result, Internet banking users grew by 19% and the number of payments processed increased 27%.

Meanwhile, our financial services business is growing strong. In just five years, our insurance agency Popular Insurance, has become the second largest in Puerto Rico, holding \$140 million in premiums. Our brokerage operation, Popular Securities, strengthened its sales team and increased retail assets under management by 12%, to \$4 billion. With strong 2006 results, Banco Popular de Puerto Rico is poised to remain the absolute leader in our market.

BPNA

“27% of new checking account customers were referred by other customers.”

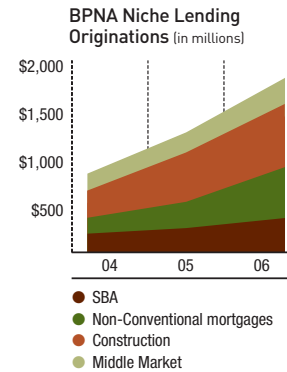
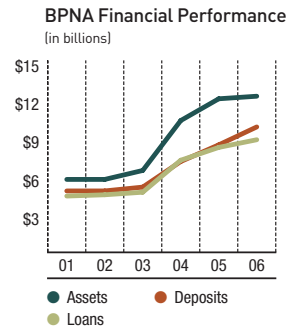
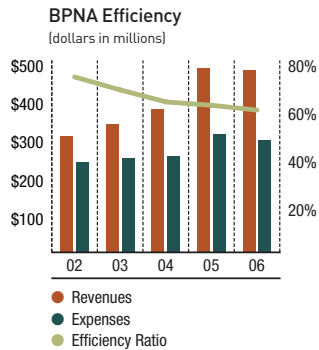
- Launched Popular Small Business Capital to better serve SBA lending niche
- SBA origination volume increased by 40% to \$358 million in 2006
- Non-conventional mortgage unit expanded to eight additional states and originated \$530 million
- Opened over 90,000 deposit accounts, an increase of 9% over 2005
- Total loans and deposits grew by 10% and 16%, respectively
- Deposit fee income increased by 16% compared to 2005
- Expenses slightly lower than 2005 levels



ROBERTO R. HERENCIA
Executive Vice President,
Popular, Inc.,
President, Banco Popular
North America



4th
Became fourth largest
SBA lender in the United States,
in terms of dollars of loans.



Banco Popular North America (BPNA) completed the first full year of Seize the Future, our 2006–2008 strategic plan to increase our customer base, expand our position in niche lending markets, and improve our ability to better serve customers. The flattening yield curve and strong competition were major challenges to our profitability, impacting revenue by more than \$31 million from our original expectations. To counteract the impact, we achieved strong year-over-year growth of 16% in deposit fee income, 10% in loans, and 16% in deposits, while keeping expenses close to 2005 levels. During the year, we also exited two businesses – indirect auto and large ticket item leasing – that did not yield the desired results.

Our strategic emphasis on checking account growth was a success: New customers were drawn to BPNA in 2006, opening 94,370 new business and retail accounts, a 9% increase over 2005. Reflecting our increasing ability to engage customers, 27% of new checking account customers were referred by other customers through our “Tell a Friend” program, up from 11% last year. Our business banking loan portfolio also grew significantly by \$632 million or 20% vs. 2005.

Popular Small Business Capital (Small Business Administration loans) – an important niche lending initiative – achieved significant growth, allowing us to become the fourth largest SBA lender in the United States in terms of dollars of loans. SBA loan originations increased 40%, from \$253 million in 2005 to \$358 million.

We continue a measured expansion of our footprint across the United States. Our investment in new branches and a new regional headquarters in South Florida are paying off substantially, with an encouraging reception to Banco Popular’s value proposition in this high-growth market. South Florida boasts \$1 billion in loans, up 54% from 2005 and, through Popular Association Banking, is one of the largest lenders to community associations in the nation. The Texas region, home to our non-conventional mortgage unit, entered eight additional states and originated \$530 million of loans, exceeding its 2006 production goals by \$71.5 million and its end-of-year portfolio target by \$103.5 million. Our non-conventional mortgages feature low exposure per loan, attractive loan-to-value ratios, and boast excellent credit performance.

Banco Popular North America continues to build on its strengths to reach its mission to become the premier community bank in the markets we serve. Encouraged by steady growth in 2006, we are ready to achieve the ambitious goals set forth in our Seize the Future strategic plan.

PFH

“During 2006, PFH consolidated operations.”



BILL WILLIAMS
Executive Vice President,
Popular, Inc.,
President, Popular
Financial Holdings

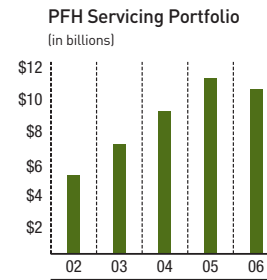
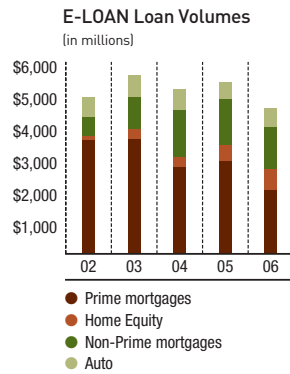
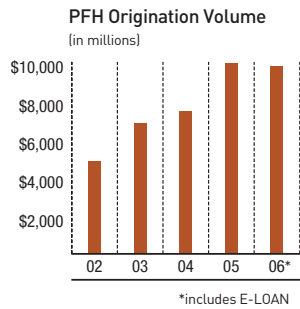


- Consumer Services operation increased total production by 15% over their goal
- After major restructuring, PFH will retain the Consumer Services, Loan Servicing, Customer Retention and E-LOAN divisions while closing our wholesale non-prime mortgage origination business
- Current PFH support functions will be integrated into Banco Popular North America (BPNA)



Rating Upgrade
During 2006,
Fitch upgraded our
mortgage servicer
rating to above average

\$1.3B
E-LOAN online deposit
initiative yielded
\$1.3 billion
during the last three
months of the year



During 2006, Popular Financial Holdings, our consumer finance and mortgage subsidiary in the United States, took steps to reorganize and consolidate operations in an attempt to keep up with rapidly deteriorating volumes and profits in the mortgage industry. Despite considerable and sustained efforts, these initiatives proved insufficient, and our results reflected a loss of \$81.6 million.

Our 2006 efforts to streamline and reduce costs included various measures, such as reducing the Broker Group from four loan processing centers to two, achieving a \$1.8 million cost reduction and a 15% productivity increase. Also, the Retail Group's forty-two offices were consolidated into five regional hubs, for a total annualized saving of \$10.6 million and a 35% production-per-officer increase. The Manufactured Housing unit was consolidated from five locations to one, and the Private Label business office and eight underperforming Consumer Finance offices were closed. However, these measures were not enough.

During the last quarter, in a continuously deteriorating marketplace, a special management committee recommended fundamental changes to the business to be implemented in 2007: These included, exiting a number of unprofitable businesses and consolidating support functions into sister company BPNA.

Despite the difficult year, there were some encouraging highlights. We leveraged the power of the E-LOAN brand to attract online deposit customers. In fact, E-LOAN's first deposit-gathering initiative surpassed all expectations, with \$1.3 billion from approximately 30,000 online deposit accounts during the last quarter of 2006. This project also represented an important step towards integration with BPNA, which received the deposits and handled all the back-office operations.

PFH's Consumer Services operation achieved its major targets. Total production reached \$918 million, for a portfolio growth of \$178 million or 15% over the goal. The Mortgage Servicing group exceeded its growth target and earned a servicer rating upgrade from Fitch.

While we continued making strides in the PFH/E-LOAN partnership in such areas as product distribution, servicing technology, and capital markets, difficult market conditions prevented us from achieving goals of increased volumes and customers, reduced costs, and improved service. However, the progress made in enabling the partnership is noteworthy and relevant to E-LOAN's future value to the Popular franchise.

EVERTEC

“Our flagship ATH® Network continued its expansion across Central America with the acquisition of TII Smart Solutions.”

- Continued expansion in Central America with the acquisition of TII Smart Solutions
- Launched NeoMED, which allows doctors to maintain electronic records for their patients
- Strengthened its offering of payroll processing solutions with its Workforce Management Division
- Added several new clients to the item processing business, including the Puerto Rico Treasury Department and Puerto Rico Clearing House
- Expanded ticket processing business to the United States, obtaining its first client

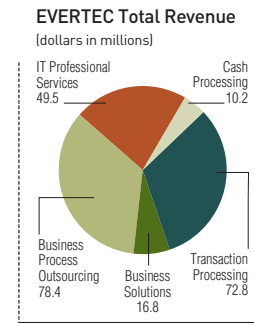
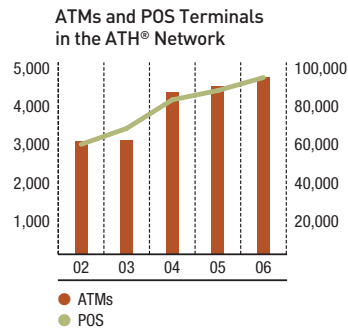
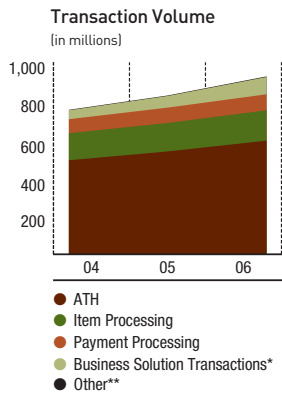


FÉLIX M. VILLAMIL
Executive Vice President,
Popular, Inc.,
President,
EVERTEC, Inc.



7%
growth in
ATH® Network
transactions
over 2005

1.3M
Entered alliance with
NYCE Payment Networks
allowing ATH® cardholders
access to over 1.3 million
POS throughout the U.S.



EVERTEC continues making strides towards becoming the best processing option for its customers in Puerto Rico, the Caribbean, Latin America and the United States. During 2006, we focused on increasing our core earnings and achieving high levels of quality. The Company successfully entered new ventures and markets to fuel future growth.

A proposed agreement signed by Popular in 2005 to purchase a 19.99% equity in UBCI, the holding company of Grupo Cuscatlán, was not completed. Although a setback, plans for our expansion in Central America continue.

In August, our flagship ATH® Network acquired Costa Rica-based TII Smart Solutions, a provider of switching, driving and online transaction processing that also develops financial processing applications. With this acquisition EVERTEC is now serving clients in 15 countries, including Guatemala, Peru and Panama, markets entered into this past year. At year end, our ATH® Network had processed over 505.9 million transactions through 4,600 ATMs and 92,072 POS terminals. The network was also reinforced through an agreement with NYCE, allowing all ATH® cardholders free access to NYCE's network of more than 1.3 million POS locations throughout the United States.

EVERTEC also obtained other significant new businesses this year, including processing all images for the Puerto Rico Clearing House, and the sales tax returns for the Puerto Rico Treasury Department and two municipalities on the island.

This year, we signed several new clients in our Workforce Management unit, which provides payroll processing services as well as other creative solutions designed to enhance the administration of their labor force. In the Health Services area, we launched NeoMED, a system that provides a platform to store patients' records in an electronic format, which will become compulsory in 2010, as required by the Health Insurance Portability and Accountability Act.

EVERTEC successfully entered the United States ticket-processing market, landing its first client during this year. In Puerto Rico, over 800,000 ticket sales were processed in 2006, a 15.6% growth over 2005.

Important advances in our Technology Infrastructure Project (TIP), which is on schedule for completion in 2010, were also made during this year. We achieved the initial objective of integrating several banking delivery channels to the Transaction Vault in order to provide BPPR customers and service representatives access to centralized, real-time information. We also made progress in attaining TIP's second objective, the real-time processing of transactions.

EVERTEC's growth and performance is taking place in the framework of *TRAVESÍA* (Journey), a sweeping internal communications program that aims to engage our people, communicate goals, improve efficiency and effectively plan and execute technology projects. Our employees have responded positively to these challenges, as shown by a substantial improvement in their commitment to the Company that was reflected in an internal engagement survey.

* Includes health care transactions, mail processing transactions, and workforce management

** Includes Cash Processing and Electronic Ticketing

Our Creed

Banco Popular is a local institution dedicating its efforts exclusively to the enhancement of the social and economic conditions in Puerto Rico and inspired by the most sound principles and fundamental practices of good banking.

Banco Popular pledges its efforts and resources to the development of a banking service for Puerto Rico within strict commercial practices and so efficient that it could meet the requirement of the most progressive community of the world.

These words, written in 1928 by Don Rafael Carrión Pacheco, Executive Vice President and President (1927–1956), embody the philosophy of Popular, Inc.

Our People

The men and women who work for our institution, from the highest executive to the employees who handle the most routine tasks, feel a special pride in serving our customers with care and dedication. All of them feel the personal satisfaction of belonging to the “Banco Popular Family,” which fosters affection and understanding among its members, and which at the same time firmly complies with the highest ethical and moral standards of behavior.

These words by Don Rafael Carrión Jr., President and Chairman of the Board (1956–1991), were written in 1988 to commemorate the 95th anniversary of Banco Popular de Puerto Rico, and reflect our commitment to human resources.

Institutional Values

Social Commitment

We are committed to work actively in promoting the social and economic well-being of the communities we serve.

Customer

We achieve satisfaction for our customers and earn their loyalty by adding value to each interaction. Our relationship with the customer takes precedence over any particular transaction.

Integrity

We are guided by the highest standards of ethics, integrity and morality. Our customers' trust is of utmost importance to our institution.

Excellence

We believe there is only one way to do things: the right way.

Innovation

We foster a constant search for new solutions as a strategy to enhance our competitive advantage.

Our People

We strive to attract, develop, compensate and retain the most qualified people in a work environment characterized by discipline and affection.

Shareholder Value

Our goal is to produce high and consistent financial returns for our shareholders, based on a long-term view.

Strategic Objectives

Puerto Rico

Strengthen our competitive position in our main market by offering the best and most complete financial services in an efficient and convenient manner. Our services will respond to the needs of all segments of the market in order to earn their trust, satisfaction and loyalty.

United States

Expand our franchise in the United States by offering the most complete financial services to the communities we serve while capitalizing on our strengths in the Hispanic market.

Processing

Provide added value by offering integrated technological solutions and financial transaction processing.

Corporate Leadership Circle



Richard L. Carrión
*Chairman, President
Chief Executive Officer
Popular, Inc.*



David H. Chafey Jr.
*Senior Executive Vice President
Popular, Inc., President,
Banco Popular de Puerto Rico*



Roberto R. Herencia
*Executive Vice President, Popular, Inc.
President, Banco Popular
North America*



Amílcar Jordán, Esq.
*Executive Vice President
Risk Management, Popular, Inc.*



Jorge A. Junquera
*Senior Executive Vice President
Chief Financial Officer, Popular, Inc.*



Tere Loubriel
*Executive Vice President
People, Communications and Planning
Popular, Inc.*



Brunilda Santos de Álvarez, Esq.
*Executive Vice President,
Chief Legal Officer, Popular, Inc.*



Félix M. Villamil
*Executive Vice President, Popular, Inc.
President, EVERTEC, Inc.*



Bill Williams
*Executive Vice President, Popular, Inc.
President, Popular Financial Holdings*

Board of Directors, Popular, Inc.



Richard L. Carrión
Chairman, President
Chief Executive Officer
Popular, Inc.



Juan J. Bermúdez
Partner, Bermúdez & Longo, S.E.



José B. Carrión Jr.
President, Collosa Corporation



María Luisa Ferré
President, Grupo Ferré Rangel



Manuel Morales Jr.
President, Parkview Realty, Inc.



Francisco M. Rexach Jr.
President, Capital Assets, Inc.



Frederic V. Salerno
Investor



William J. Teuber Jr.
Vice Chairman,
EMC Corporation



José R. Vizcarrondo
President and Chief Executive Officer
Desarrollos Metropolitanos, S.E.



Samuel T. Céspedes, Esq.
Secretary of the Board of Directors
Popular, Inc.

Condensed Consolidated Statements of Condition, in thousands

At December 31,	2006	2005
Assets		
Cash and due from banks	\$ 950,158	\$ 906,397
Money market investments	301,708	749,423
Trading securities, at fair value	382,325	519,338
Investment securities available-for-sale, at fair value	9,850,862	11,716,586
Investment securities held-to-maturity, at amortized cost	91,340	153,104
Other investment securities, at lower of cost or realizable value	297,394	319,103
Loans held-for-sale, at lower of cost or market value	719,922	699,181
Loans held-in-portfolio	32,325,364	31,308,639
Less – Unearned income	308,347	297,613
Allowance for loan losses	522,232	461,707
	31,494,785	30,549,319
Premises and equipment, net	595,140	596,571
Other real estate	84,816	79,008
Accrued income receivable	248,240	245,646
Other assets	1,611,890	1,325,800
Goodwill	667,853	653,984
Other intangible assets	107,554	110,208
	\$ 47,403,987	\$ 48,623,668

At December 31,	2006	2005
Liabilities and Stockholders' Equity		
<i>Liabilities:</i>		
Deposits:		
Non-interest bearing	\$ 4,222,133	\$ 3,958,392
Interest bearing	20,216,198	18,679,613
	24,438,331	22,638,005
Federal funds purchased and assets sold under agreements to repurchase	5,762,445	8,702,461
Other short-term borrowings	4,034,125	2,700,261
Notes payable	8,737,246	9,893,577
Other liabilities	811,424	1,240,002
	43,783,571	45,174,306
Minority interest in consolidated subsidiaries	110	115
<i>Stockholders' Equity:</i>		
Preferred stock	186,875	186,875
Common stock	1,753,146	1,736,443
Surplus	526,856	452,398
Retained earnings	1,594,144	1,456,612
Treasury stock – at cost	(206,987)	(207,081)
Accumulated other comprehensive loss, net of tax	(233,728)	(176,000)
	3,620,306	3,449,247
	\$ 47,403,987	\$ 48,623,668

Condensed Consolidated Statements of Income

, in thousands, except per share information

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06

taking action

Year ended December 31,	2006	2005	2004
Interest income			
Loans	\$ 2,486,453	\$ 2,116,299	\$ 1,751,150
Money market investments	29,626	30,736	25,660
Investment securities	516,237	488,814	413,492
Trading securities	32,125	30,010	25,963
	3,064,441	2,665,859	2,216,265
Interest expense			
Deposits	580,094	430,813	330,351
Short-term borrowings	518,960	349,203	165,425
Long-term debt	537,477	461,636	344,978
	1,636,531	1,241,652	840,754
Net interest income	1,427,910	1,424,207	1,375,511
Provision for loan losses	287,760	195,272	178,657
Net interest income after provision for loan losses	1,140,150	1,228,935	1,196,854
Service charges on deposit accounts	190,079	181,749	165,241
Other service fees	320,875	331,501	295,551
Net gain on sale and valuation adjustment of investment securities	4,359	52,113	15,254
Trading account profit (loss)	35,288	30,051	(159)
Gain on sale of loans	117,421	83,297	44,168
Other operating income	141,463	106,564	88,716
	\$ 1,949,635	\$ 2,014,210	\$ 1,805,625

Year ended December 31,	2006	2005	2004
Operating expenses			
Personnel costs	\$ 668,671	\$ 622,689	\$ 571,018
Net occupancy expenses	116,742	108,386	89,821
Equipment expenses	135,877	124,276	108,823
Other taxes	44,543	39,197	40,260
Professional fees	141,534	119,281	95,084
Communications	68,283	63,395	60,965
Business promotion	129,965	100,434	75,708
Printing and supplies	17,741	18,378	17,938
Impairment losses on long-lived assets	7,232	—	—
Other operating expenses	118,128	122,585	103,551
Impact of change in fiscal period at certain subsidiaries	9,741	—	—
Amortization of intangibles and goodwill impairment losses	26,616	9,579	7,844
	1,485,073	1,328,200	1,171,012
Income before income tax and cumulative effect of accounting change	464,562	686,010	634,613
Income tax	106,886	148,915	144,705
Income before cumulative effect of accounting change	357,676	537,095	489,908
Cumulative effect of accounting change, net of tax	—	3,607	—
Net income	\$ 357,676	\$ 540,702	\$ 489,908
Net income applicable to common stock	\$ 345,763	\$ 528,789	\$ 477,995
Net income per common share – basic, after cumulative effect of accounting change	\$ 1.24	\$ 1.98	\$ 1.79
Net income per common share – diluted, after cumulative effect of accounting change	\$ 1.24	\$ 1.97	\$ 1.79
Dividends declared per common share	\$ 0.64	\$ 0.64	\$ 0.62

For a complete set of audited financial statements in conformity with generally accepted accounting principles in the United States of America, refer to Popular, Inc.'s 2006 Financial Review and Supplementary Information to Stockholders incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006.

Historical Financial Summary – 25 Years

dollars in millions, except per share data

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Selected Financial Information											
Net Interest Income	\$ 151.7	\$ 144.9	\$ 156.8	\$ 174.9	\$ 184.2	\$ 207.7	\$ 232.5	\$ 260.9	\$ 284.2	\$ 407.8	\$ 440.2
Non-Interest Income	15.9	19.6	19.0	26.8	41.4	41.0	54.9	63.3	70.9	131.8	124.5
Operating Expenses	121.2	127.3	137.2	156.0	168.4	185.7	195.6	212.4	229.6	345.7	366.9
Net Income	27.3	26.8	29.8	32.9	38.3	38.3	47.4	56.3	63.4	64.6	85.1
Assets	2,727.0	2,974.1	3,526.7	4,141.7	4,531.8	5,389.6	5,706.5	5,972.7	8,983.6	8,780.3	10,002.3
Net Loans	976.8	1,075.7	1,373.9	1,715.7	2,271.0	2,768.5	3,096.3	3,320.6	5,373.3	5,195.6	5,252.1
Deposits	2,208.2	2,347.5	2,870.7	3,365.3	3,820.2	4,491.6	4,715.8	4,926.3	7,422.7	7,207.1	8,038.7
Stockholders' Equity	163.5	182.2	203.5	226.4	283.1	308.2	341.9	383.0	588.9	631.8	752.1
Market Capitalization	\$ 99.0	\$ 119.3	\$ 159.8	\$ 216.0	\$ 304.0	\$ 260.0	\$ 355.0	\$ 430.1	\$ 479.1	\$ 579.0	\$ 987.8
Return on Assets (ROA)	0.96%	0.95%	0.94%	0.89%	0.88%	0.76%	0.85%	0.99%	1.09%	0.72%	0.89%
Return on Equity (ROE)	17.99%	15.86%	15.83%	15.59%	15.12%	13.09%	14.87%	15.87%	15.55%	10.57%	12.72%
Per Common Share¹											
Net Income – Basic	\$ 0.19	\$ 0.19	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.24	\$ 0.30	\$ 0.35	\$ 0.40	\$ 0.27	\$ 0.35
Net Income – Diluted	\$ 0.19	\$ 0.19	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.24	\$ 0.30	\$ 0.35	\$ 0.40	\$ 0.27	\$ 0.35
Dividends (Declared)	0.04	0.06	0.06	0.07	0.08	0.09	0.09	0.10	0.10	0.10	0.10
Book Value	1.11	1.24	1.38	1.54	1.73	1.89	2.10	2.35	2.46	2.63	2.88
Market Price	\$ 0.69	\$ 0.83	\$ 1.11	\$ 1.50	\$ 2.00	\$ 1.67	\$ 2.22	\$ 2.69	\$ 2.00	\$ 2.41	\$ 3.78
Assets by Geographical Area											
Puerto Rico	95%	94%	91%	92%	92%	94%	93%	92%	89%	87%	87%
United States	5%	5%	8%	7%	7%	5%	6%	6%	9%	11%	10%
Caribbean and Latin America		1%	1%	1%	1%	1%	1%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Traditional Delivery System											
Banking Branches											
Puerto Rico	110	112	113	115	124	126	126	128	173	161	162
Virgin Islands	2	3	3	3	3	3	3	3	3	3	3
United States	7	6	9	9	9	9	10	10	24	24	30
Subtotal	119	121	125	127	136	138	139	141	200	188	195
Non-Banking Offices											
Popular Financial Holdings											
Popular Cash Express										27	41
Popular Finance						14	17	18	26	26	26
Popular Auto								4	9	9	9
Popular Leasing, U.S.A.											
Popular Mortgage											
Popular Securities											
Popular Insurance											
Popular Insurance Agency U.S.A.											
Popular Insurance, V.I.											
EVERTEC											
Subtotal						14	17	22	35	62	76
Total	119	121	125	127	136	152	156	163	235	250	271
Electronic Delivery System											
ATMs²											
Owned and Driven											
Puerto Rico		30	78	94	113	136	153	151	211	206	211
Caribbean						3	3	3	3	3	3
United States											6
Subtotal		30	78	94	113	139	156	154	214	209	220
Driven											
Puerto Rico			6	36	51	55	68	65	54	73	81
Caribbean											
Subtotal			6	36	51	55	68	65	54	73	81
Total		30	84	130	164	194	224	219	268	282	301
Transactions (in millions)											
Electronic Transactions ³		0.6	4.4	7.0	8.3	12.7	14.9	16.1	18.0	23.9	28.6
Items Processed	98.5	102.1	110.3	123.8	134.0	139.1	159.8	161.9	164.0	166.1	170.4
Employees (full-time equivalent)	3,816	3,832	4,110	4,314	4,400	4,699	5,131	5,213	7,023	7,006	7,024

¹ Per common share data adjusted for stock splits.

² Does not include host-to-host ATMs (2,152 in 2006) which are neither owned nor driven, but are part of the ATH Network.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
\$	492.1	\$ 535.5	\$ 584.2	\$ 681.3	\$ 784.0	\$ 873.0	\$ 953.7	\$ 982.8	\$ 1,056.8	\$ 1,160.2	\$ 1,284.7	\$ 1,375.5	\$ 1,424.2	\$ 1,427.9
	125.2	141.3	173.3	205.5	247.6	291.2	372.9	464.1	491.8	543.8	626.0	608.8	785.3	809.5
	412.3	447.8	486.8	541.9	636.9	720.4	837.5	876.4	926.2	1,029.0	1,113.1	1,171.0	1,328.2	1,485.1
	109.4	124.7	146.4	185.2	209.6	232.3	257.6	276.1	304.5	351.9	470.9	489.9	540.7	357.7
	11,513.4	12,778.4	15,675.5	16,764.1	19,300.5	23,160.4	25,460.5	28,057.1	30,744.7	33,660.4	36,434.7	44,401.6	48,623.7	47,404.0
	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,078.8	14,907.8	16,057.1	18,168.6	19,582.1	22,602.2	28,742.3	31,710.2	32,736.9
	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2	14,173.7	14,804.9	16,370.0	17,614.7	18,097.8	20,593.2	22,638.0	24,438.3
	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1	1,661.0	1,993.6	2,272.8	2,410.9	2,754.4	3,104.6	3,449.2	3,620.3
\$	1,014.7	\$ 923.7	\$ 1,276.8	\$ 2,230.5	\$ 3,350.3	\$ 4,611.7	\$ 3,790.2	\$ 3,578.1	\$ 3,965.4	\$ 4,476.4	\$ 5,960.2	\$ 7,685.6	\$ 5,836.5	\$ 5,003.4
	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%	1.08%	1.04%	1.09%	1.11%	1.36%	1.23%	1.17%	0.74%
	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%	15.45%	15.00%	14.84%	16.29%	19.30%	17.60%	17.12%	9.73%
\$	0.42	\$ 0.46	\$ 0.53	\$ 0.67	\$ 0.75	\$ 0.83	\$ 0.92	\$ 0.99	\$ 1.09	\$ 1.31	\$ 1.74	\$ 1.79	\$ 1.98	\$ 1.24
\$	0.42	\$ 0.46	\$ 0.53	\$ 0.67	\$ 0.75	\$ 0.83	\$ 0.92	\$ 0.99	\$ 1.09	\$ 1.31	\$ 1.74	\$ 1.79	\$ 1.97	\$ 1.24
	0.12	0.13	0.15	0.18	0.20	0.25	0.30	0.32	0.38	0.40	0.51	0.62	0.64	0.64
	3.19	3.44	3.96	4.40	5.19	5.93	5.76	6.96	7.97	9.10	9.66	10.95	11.82	12.32
\$	3.88	\$ 3.52	\$ 4.85	\$ 8.44	\$ 12.38	\$ 17.00	\$ 13.97	\$ 13.16	\$ 14.54	\$ 16.90	\$ 22.43	\$ 28.83	\$ 21.15	\$ 17.95
	79%	76%	75%	74%	74%	71%	71%	72%	68%	66%	62%	55%	53%	52%
	16%	20%	21%	22%	23%	25%	25%	26%	30%	32%	36%	43%	45%	45%
	5%	4%	4%	4%	3%	4%	4%	2%	2%	2%	2%	2%	2%	3%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	165	166	166	178	201	198	199	199	196	195	193	192	194	191
	8	8	8	8	8	8	8	8	8	8	8	8	8	8
	32	34	40	44	63	89	91	95	96	96	97	128	136	142
	205	208	214	230	272	295	298	302	300	299	298	328	338	341
	58	73	91	102	117	128	137	136	149	153	181	183	213	159
						51	102	132	154	195	129	114	4	—
	26	28	31	39	44	48	47	61	55	36	43	43	49	52
	8	10	9	8	10	10	12	12	20	18	18	18	17	15
					7	8	10	11	13	13	11	15	14	11
			3	3	3	11	13	21	25	29	32	30	33	32
				1	2	2	2	3	4	7	8	9	12	12
								2	2	2	2	2	2	2
									1	1	1	1	1	1
							4	4	4	5	5	7	8	12
	92	111	134	153	183	258	327	382	427	460	431	423	354	297
	297	319	348	383	455	553	625	684	727	759	729	751	692	638
	234	262	281	327	391	421	442	478	524	539	557	568	583	605
	8	8	8	9	17	59	68	37	39	53	57	59	61	65
	11	26	38	53	71	94	99	109	118	131	129	163	181	192
	253	296	327	389	479	574	609	624	681	723	743	790	825	862
	86	88	120	162	170	187	102	118	155	174	176	167	212	226
				97	192	265	851	920	823	926	1,110	1,216	1,726	1,360
	86	88	120	259	362	452	953	1,038	978	1,100	1,286	1,383	1,938	1,586
	339	384	447	648	841	1,026	1,562	1,662	1,659	1,823	2,029	2,173	2,763	2,448
	33.2	43.0	56.6	78.0	111.2	130.5	159.4	199.5	206.0	236.6	255.7	568.5	625.9	690.2
	171.8	174.5	175.0	173.7	171.9	170.9	171.0	160.2	149.9	145.3	138.5	133.9	140.3	150.0
	7,533	7,606	7,815	7,996	8,854	10,549	11,501	10,651	11,334	11,037	11,474	12,139	13,210	12,508

³ From 1981 to 2003, electronic transactions include ACH, Direct Payment, TelePago, Internet Banking and ATH Network transactions in Puerto Rico. Since 2004, these numbers were adjusted to include ATH Network transactions in the Dominican Republic, Costa Rica, El Salvador and United States, health care transactions, wire transfers, and other electronic payment transactions in addition to those previously stated.

Subsidiaries

Banco Popular de Puerto Rico
Popular Auto, Inc.
Popular Finance, Inc.
Popular Mortgage, Inc.
Popular International Bank, Inc.
TII Smart Solutions, Inc.
Tarjetas Inteligentes Internacionales, S.A.
TII Smart Solutions (Costa Rica), S.A.
Payment Technologies, S.A.
Technological Ventures, Inc., S.A.
TII Smart Solutions (Guatemala), S.A.
Servicios EFT, S.A.
Popular Insurance, V.I., Inc.
ATH Costa Rica, S.A.
CreST, S.A.
Popular North America, Inc.
Banco Popular, National Association
EVERTEC USA, Inc.
Banco Popular North America
E-LOAN, Inc.
Escrow Closing Services, Inc.
Equity Real Estate Solutions, LLC
Popular FS, LLC
BPNA Real Estate, Inc.
Popular Leasing, USA
Popular Insurance Agency USA, Inc.
Popular Insurance, Inc.
Popular Financial Holdings, Inc.
Equity One, Inc. (DE Corp.)
E-LOAN Auto Fund Two, LLC
Popular ABS, Inc.
Popular Warehouse Lending, LLC
Equity One, Incorporate
Equity One of West Virginia, Inc.
Equity One Consumer Funding, LLC
Equity One, Inc. (MN Corp.)
Equity One Consumer Loan Company, Inc.
Equity One Holding Company
Equity One Funding Company
Popular Financial Services, LLC
Popular Housing Services, Inc.
Popular Mortgage Servicing, Inc.
E-LOAN Insurance Services, Inc.
EVERTEC, Inc.
EVERTEC Dominicana, S.A.
EVERTEC de Venezuela, C.A.
ScanData Puerto Rico, Inc.
Sense Software International Corp.
Popular Life Re
Popular Securities, Inc.

Stockholders' Information

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP

Annual Meeting

The 2007 Annual Stockholders' Meeting of Popular, Inc. will be held on Tuesday, May 1, at 9:00 a.m. at Centro Europa Building in San Juan, Puerto Rico.

Additional Information

The Annual Report to the Securities and Exchange Commission on Form 10-K and any other financial information may also be viewed by visiting our website:

www.popular.com

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